IN THE

Supreme Court of the United States

OCTOBER TERM, 1950.

No. 30.

THE UNITED STATES OF AMERICA, *Appellant*,

v.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; THE CELOTEX CORPORATION; EBSARY GYPSUM COMPANY, INC.; NEWARK PLASTER COMPANY; SAMUEL M. GLOYD, Doing Business Under the Name of Texas Cement Plaster Company; SEWELL L. AVERY; OLIVER M. KNODE; MELVIN H. BAKER; HENRY J. HARTLEY; FREDERICK G. EBSARY; and FREDERICK TOMKINS.

On Appeal from the United States District Court for the District of Columbia.

BRIEF FOR APPELLEE, THE CELOTEX CORPORATION.

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PRELIMINARY STATEMENT.

This brief is submitted on behalf of appellee, The Celotex Corporation (Celotex), a licensee under patents relating to gypsum board owned by United States Gypsum Company (USG). We adopt the Government's paragraphs relating to Prior Opinions, Jurisdiction and Statute Involved.

QUESTION PRESENTED.

Whether the provisions of the decree of the District Court should be changed by direction of this Court to impose additional restrictive injunctions upon Celotex, a licensee.

STATEMENT.

Celotex entered the gypsum board industry for the first time in 1939, when the licensing plan was fully in effect, by acquiring the assets and licenses of American Gypsum Company (333 U. S. 369). Celotex would have proven, if it had been permitted to do so, that its purpose in acquiring the assets and licenses of American Gypsum Company (American) was to enable it to broaden the line of products which it could offer for sale in competition with other manufacturers in the building materials industry (SR.* 160).

In acquiring the assets of American in 1939, Celotex was required to take over the license agreement between American and USG, dated November 25, 1929 (Govt. Ex. No. 13, R. 4446, 4455). By the terms of this license agreement, American had agreed not to sell its assets without requiring the purchaser to assume all of the obligations of American under the license. That license agreement provided (R. 4454-5):

> "5. It is expressly understood and agreed that the license herein granted shall be personal to the Licensee, and that the same or any right herein or thereunder shall not be sold or assigned or transferred without the written consent of Licensor, or transferred by operation of law; Provided, However, that the same may be assigned by Licensee to any company acquiring all the assets and business or all of the capital stock of Licensee, on condition that Licensee shall first obtain an agreement in writing from any such assignee agreeing to assume all of the obligations of Licensee under

* The letters SR. have been chosen to designate the record on this appeal, to contrast with the letter R. which refers to the printed record on the previous appeal.

this agreement and to be bound by all of the terms and conditions hereof and shall deliver such agreement to Licensor. Licensee agrees not to sell all of its assets and business or all of its capital stock or to transfer and convey its plasterboard and/or wallboard business, or its assets used in connection therewith, without requiring the purchaser or purchasers thereof to assume, in writing, all of the obligations of Licensee hereunder, including the assumption of the claim which Licensor has against Licensee for damages for infringement of its said patents and the agreements in settlement and discharge thereof, as in this contract contained, and to agree to be bound by all of the terms and conditions of this contract, and deliver such agreement to Licensor."

Celotex acquired American through purchase of its capital stock and in connection with the complete liquidation of American, as of April 12, 1939, received from American an Assignment and Bill of Sale (Govt. Ex. No. 14, R. 4469-70), in which was included the following reference to the license agreement (R. 4470):

"3. The Grantee hereby agrees to assume all the liabilities of the Grantor as shown on its balance sheet of even date herewith and hereby agrees to assume all of the obligations of the Grantor as Licensee under its above mentioned agreement with United States Gypsum Company, and hereby assumes the claim which said United States Gypsum Company has against the Grantor for damages for infringement of said United States Gypsum Company's patents and the agreements in settlement and discharge thereof as in said agreement contained, and agrees to be bound by all of the terms and conditions of said agreement between said United States Gypsum Company and the Grantor."

In the nature of the case, Celotex had no part in the negotiations with respect to the issuance of the license to American in 1929 (Govt. Brief on first appeal, p. 89). Celotex has offered to prove that (SR. 160-1):

"The observance by Celotex of any of the terms and provisions of the license, as charged in this case to have been unlawful or improper, was not the result of any voluntary act on the part of Celotex but constituted solely the observance of contractual relations and obligations which it inherited from American and which it was legally obligated to observe unless it sought to escape the observance thereof on the ground of the invalidity of the terms of the license. Upon Celotex becoming obligated to carry out the terms of the license, it was advised by counsel that the provisions of the license were valid and enforceable and that Celotex was legally obligated to observe the same.

"During the sixteen months period to August 15, 1940, the date of the filing of the complaint in this cause, Celotex continued, in the *bona fide* belief that it was obligated legally so to do, to observe the terms of the license. Since July 8, 1941, when Celotex was advised that the Haggerty patent had expired, Celotex has not observed any price limitation under the license, and its observance of the terms of the license has been solely with respect to payments of the royalties payable thereunder in order to prevent the cancellation of the license to use the patents thereunder which Celotex was advised and believed and still believes are valid."*

There is no proof in the record of this case which would contradict or qualify the facts set forth above. There is no evidence in this case indicating the existence of any agreement, understanding, combination or concert of action between Celotex and USG or between Celotex and any of the other licensees, beyond the license agreements and observance of the price bulletins issued by USG pursuant thereto.

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* The effort made by the Government to remove from consideration the proffers of proof made by defendant appellees (Govt. Br., pp. 30-31) comes too late to warrant consideration by this Court. The Government took no exception to the consideration of defendants' proffers by the District Court (SR. 89), and even though that court did consider the proffers in reaching its judgment (SR. 102-3), the Government did not include this point in its assignment of errors (SR. 197-8).

SUMMARY OF ARGUMENT.

There is no need or justification for changing the terms of the decree issued by the District Court for the purpose of imposing additional restrictions upon Celotex, a licensee. That decree is effective to eradicate the combination which has been adjudicated unlawful, and its effects, and to restore competitive conditions in the industry by striking off the fetters contained in the offending license agreements. Celotex has shown no proclivity to unlawful conduct which would justify including in the decree provisions restraining it from otherwise lawful activities.

ARGUMENT.

The District Court Decree Should Not Be Changed to Impose Additional Restrictions Upon This Licensee.

Celotex was a late-comer to the gypsum board industry and ultimately gained access to that field as a manufacturer only in 1939, about 16 months before the complaint was filed in this proceeding. Celotex has offered to prove that its motive in seeking to enter into the manufacture of gypsum board was to broaden the line of its products which it could offer for sale, i.e., to strengthen the competitive position of Celotex, also a manufacturer of fiber insulating board, in the building materials industry. One result of the entrance of Celotex into the gypsum board industry was the replacement of American, whose operations were confined to a single gypsum plant, by a company which could offer stronger competition because of the greater variety of products which it produced and sold.

Celotex assumed the obligations of American under a license from USG, and during the period from April, 1939, to July, 1941, when Celotex ceased to observe any price limitations under this license, USG determined and fixed the minimum prices, terms and conditions of sale of the gypsum board manufactured and sold by Celotex, as a

licensee of USG (SR. 161). Giving up to USG the power to fix its minimum prices for patented board was a part of the price which Celotex was required to pay to acquire an opportunity to manufacture and sell gypsum board, since it was advised by counsel that the provisions of the license from USG were valid and enforceable and that Celotex was legally obligated to observe the terms thereof (SR. 161). There is no other evidence in the record of this case of any activities by Celotex charged or found to be offensive under the Sherman Act.

When this case was last here on appeal (Dkt. No. 13, Oct. Term, 1947), this Court reversed the judgment of the District Court dismissing the complaint, stating (333 U.S. 389):

> "We think that the industry-wide license agreements, entered into with knowledge on the part of licensor and licensees of the adherence of others, with the control over prices and methods of distribution through the agreements and the bulletins, were sufficient to establish a *prima facie* case of conspiracy."

And this Court said later in its opinion (333 U.S. 401):

> "Even in the absence of the specific abuses in this case, which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants, constituting all former competitors in an entire industry, had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices. That conclusion follows despite the assumed legality of each separate patent license, for it is familiar doctrine that lawful acts may become unlawful when taken in concert."

This Court also concluded that Celotex was a party to the combination found to have existed, because it "entered the industry in 1939 when the licensing plan was fully in effect" (333 U.S. 369).

Upon remand of this case to the District Court, a motion for summary judgment in its favor was filed by the Government (SR. 144) and proffers of proof were submitted by

the defendants.* In support of the motion for summary judgment counsel for the Government stated (SR. 34-5):

> "I think for purposes of present argument, although we do not waive the point, that many of the abuses such as the court refers to in this portion of its opinion, such as controlling plaster prices, perhaps controlling manufacturing distributors, fixing the size of truckloads, the amount of dunnage, eliminating jobbers—all of those abuses, if proven to have been done by concerted action would normally constitute a violation of the Sherman Act, can for purposes of this argument be laid to one side, and we can look simply to whether or not the defendants combined under patent licenses, being erstwhile competitors covering an entire industry, and fixed prices."

After consideration of the Government's motion for summary judgment, the proffers of proof filed by defendants, and after hearing argument on both sides, the District Court granted the motion of the Government for summary judgment (SR. 102-3). It is evident that the District Court granted the Government's motion upon the premise that this Court had ruled as a matter of law "that the industry-wide license agreements, entered into with knowledge on the part of licensor and licensees of the adherence of others, with the control over prices and methods of distribution through the agreements and the bulletins" established a violation of the statute (SR. 110-14, 119-23, 137, 138-41). Since there could be no dispute or contradiction of these basic facts the trial court granted summary judgment "on the fundamental question involved" (SR. 102-3; *United States* v. *Masonite Corporation*, 316 U. S. 265, 274 [1942]).

The decree which the District Court issued was promulgated prior to the introduction of any evidence by the defendants (333 U. S. 372). In the absence of a full hearing on the merits the District Court properly framed its decree within the realm of the undisputed facts. The decree struck

* Celotex, in addition to joining in the more complete proffer submitted on behalf of the defendants generally (SR. 31, 145-160), submitted a separate proffer (SR. 160-1).

down the offending license agreements as "illegal, null and void" (Art. IV, SR. 189), and enjoined Celotex, as well as the other defendants, from further performance of any of the provisions of the license agreements or any price bulletin issued thereunder, or from otherwise using license agreements as a means to fix, maintain or stabilize prices of gypsum board or the terms and conditions of sale thereof (Art. V, SR. 189).

Thus, the District Court reached and destroyed the whole of the substance of the combination which this Court found had existed, and effectively enjoined continuation or resumption of the combination and practices which have been adjudged to be in violation of the Sherman Act. In striking down the existing license agreements and the price bulletins issued thereunder, the District Court eradicated the means by which the offending control over prices and methods of distribution had been achieved, as well as the effects of that control (*Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, 461 [1940]). Celotex, and the other licensees, are free to enter the market place prepared to compete in a myriad of ways for the patronage of prospective customers. There is nothing in the record of this case indicating that Celotex will not take full advantage of its opportunities for effective competition (*United States* v. *Bausch & Lomb Optical Co.*, 321 U. S. 707, 729 [1944]).

The questions presented by the Government's appeal are whether the District Court went far enough in the injunctive provisions of the decree, and whether those injunctive provisions should be broadened "to assure, so far as may be practicable, that the wrongdoers shall not again violate the statute" (Govt. Br., p. 25).

The legal principles applicable to these questions are fairly summed up in the following extract from the opinion of this Court in *Hartford-Empire Co.* v. *U. S.*, 323 U. S. 386 [1945], at pp. 409-10:

> "The applicable principles are not doubtful. The Sherman Act provides criminal penalties for its violation, and authorizes the recovery of a penal sum in

addition to damages in a civil suit by one injured by violation. It also authorizes an injunction to prevent continuing violations by those acting contrary to its proscriptions. The present suit is in the last named category and we may not impose penalties in the guise of preventing future violations. This is not to say that a decree need deal only with the exact type of acts found to have been committed or that the court should not, in framing its decree, resolve all doubts in favor of the Government, or may not prohibit acts which in another setting would be unobjectionable. But, even so, the court may not create, as to the defendants, new duties, prescription of which is the function of Congress, or place the defendants, for the future, 'in a different class than other people', as the Government has suggested. The decree must not be 'so vague as to put the whole conduct of the defendants' business at the peril of a summons for contempt'; enjoin 'all possible breaches of the law'; or cause the defendants hereafter not 'to be under the protection of the law of the land.' "

Again, in *NLRB* v. *Express Pub. Co.*, 312 U. S. 426 [1941], at pp. 435-6, this Court said:

"A federal court has broad power to restrain acts which are of the same type or class as unlawful acts which the court has found to have been committed or whose commission in the future unless enjoined, may fairly be anticipated from the defendant's conduct in the past. But the mere fact that a court has found that a defendant has committed an act in violation of a statute does not justify an injunction broadly to obey the statute and thus subject the defendant to contempt proceedings if he shall at any time in the future commit some new violation unlike and unrelated to that with which he was originally charged. This Court will strike from an injunction decree restraints upon the commission of unlawful acts which are thus dissociated from those which a defendant has committed."

On this record, and particularly on the limited ground upon which the Government sought and obtained the ad-

judication below, there is no basis for a conclusion that appellees have demonstrated a "proclivity to unlawful conduct" (*U. S.* v. *Paramount Pictures*, 334 U. S. 131, 147 [1948]). With particular regard to Celotex, the record shows that it entered the gypsum industry for the first time about 10 years after the licensing plan was fully in effect. It inherited from American contractual obligations, which counsel advised were valid, enforceable and legally binding upon Celotex, and Celotex merely carried out its obligations under the license agreement. Far from demonstrating a "proclivity to unlawful conduct", the record reflects an earnest effort by Celotex to stay within the limits of the law while still gaining entry into the gypsum board industry as a manufacturer, under a license agreement which was believed to be lawful under the decision of this Court in *United States* v. *General Electric Co.*, 272 U. S. 476.

The decree which the Government proposes (Govt. Br., App. A, pp. 65-75), goes far beyond the matters proved and decided in this case and attempts to include provisions which would enjoin otherwise legal activities, which are entirely unrelated to the proscribed acts of assuming and abiding by the terms of the former license agreement with USG.

The language in which the injunctive provisions proposed by the Government have been couched (Art. V, Govt. Br., pp. 68-70) is ambiguous and open to diverse interpretations. A major portion of the difficulty centers about the use of the words "or by other concerted action", and the relationship of those words, in this context, to the six numbered sub-paragraphs included within the proposed Article. The arguments urged by the Government in its Brief, however, show that the Government intends this language to be interpreted in the most inclusive manner. The Government implies (Govt. Br., pp. 28-29) that the injunctions it proposes are designed, *inter alia*, to bar "the concerted adoption and enforcement of a host of rules designed to restrain price competition and stabilize prices" and "con-

certed adherence to and policing of a delivered price basing point system."

The impropriety of adopting the form of decree proposed by the Government becomes particularly apparent upon consideration of those provisions which would:

a. include unpatented gypsum products (gypsum plaster, block, tile and Keene's cement) within the terms of the decree even though the license agreements dealt only with patents relating to gypsum board (*Art. II, 4, p. 66; Art. V, 1, p. 69);

b. prevent Celotex from entering into a patent license agreement with anyone, even though Celotex is the sole licensee, if the licensor attempted to reserve many of the rights to which he is legally entitled under the decision of this Court in *United States* v. *General Electric Co.*, 272 U. S. 476 (Art. V, 1, p. 69);

c. prevent Celotex from discontinuing the manufacture of any product, or a method of manufacturing, selling, packaging, shipping, delivering or distributing gypsum products should its action in so doing be coincident with similar action by another appellee, since there might arise an inference that there was concerted action (Art. V, 2, p. 69);

d. prevent Celotex from choosing its own customers, or classifying them in any manner, should a competitor independently make similar decisions, except at the risk of a summons for contempt (Art. V, 3 and 4, p. 69);

e. prevent Celotex from selling its products, at points more distant from its own source of supply than a competitor's plant, under any system of pricing which would match a competitor's price, even though it would be necessary to do so in order to sell (Art. V, 5, p. 69).

The proposals offered by the Government would place upon these licensees, including Celotex, restrictive injunctions which would hamper or destroy effective future com-

*References here are to sections and paragraphs of the form of judgment proposed by the Government, at pp. 65-75 of its brief.

petition in the industry. For example, there are strong reasons why producers, in situations similar to that of Celotex, should be allowed to manufacture and sell gypsum board which will conform to and be uniform with the board manufactured and sold by its larger competitors in the gypsum industry. Gypsum board is a synthetic building material which is accepted for use only after laboratory tests. Specifications prepared by architects and contained in building codes require a high degree of standardization of product. To impose upon each manufacturer the burden of selling its product as unique, instead of allowing it to be sold as a product conforming to or exceeding the minimum standards for all gypsum board, would be to stifle Celotex's competitive opportunities under an impossible load.

As the Government frankly admits, though perhaps inadvertently (Govt. Br., pp. 28-9), it is asking this Court to enjoin the possibility that the appellees may attempt activities similar to those which were found to be illegal in an entirely different context and upon voluminous records in *Sugar Institute, Inc.* v. *United States*, 297 U. S. 553, and *Federal Trade Commission* v. *Cement Institute, Inc.*, 333 U. S. 683. The additional injunctive provisions which the Government seeks would be justified, if at all, only after the appellees had been afforded an opportunity to be heard and if, thereafter, they had been adjudged to have violated, or to have threatened violations of, the Sherman Act, in the same manner as the offenders in the cited cases. Imposing additional restraints upon these appellees without giving them an opportunity to present their defenses would be to "impose penalties in the guise of preventing future violations" (*Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 410), and no such extension of the injunctive provisions of the decree beyond the issues considered and decided in this case is warranted.

All of the restrictive provisions which the Government proposes to have inserted in the decree are directed toward terms and conditions which USG independently imposed upon its licensees for its own protection through the price

bulletins (Defendants' proffer of proof, SR. 157-9). The effectiveness of the price bulletins has, of course, been destroyed by the nullification of the license agreements, which the licensees believed authorized their issue, as well as by the specific language of the decree. There has not been, nor is there threatened, any combination or agreement outside of the license agreements.

The factual situation here presented differs in principle from that considered in the case of *Local 167 v. United States*, 291 U. S. 293 [1934], upon which the Government strongly relies. There the decree under review enjoined appellants from using any of the offices or positions in the unions "for the purpose of coercing marketmen to buy poultry, poultry feed, or other commodities necessary to the poultry business from particular sellers thereof". However, the evidence there was "that delegates of the unions coerced marketmen to use coops of a company that had or sought to secure a monopoly of such facilities and charged excessive rentals for them" (291 U. S., at p. 299). The distinction in principle, which we believe exists between that case and the one here presented, lies in the fact that here the decree already issued by the District Court has fully eradicated the combination by nullifying the license agreements, and there is no evidence of any other form of concerted action. There is no parallel or related course of conduct to be enjoined, similar to a violation established by the evidence in the record.

The unlawful combination found to exist here was the existence of industry-wide license agreements, with price-fixing provisions, entered into with knowledge of adherence of others. Now that these license agreements have been stricken down there is no other or related field of activity into which the injunctive provisions of a decree may suitably reach without violating the legal principle, often enunciated by this Court, that a decree may not be so broad as to enjoin all possible breaches of the law (*Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 410; *Swift & Co.* v. *United States*, 196 U. S. 375, 396; *National Labor Relations Board* v. *Express Pub. Co.*, 312 U. S. 426, 435-6).

Upon the earlier remand of this case to the District Court, and prior to the introduction of any evidence by the defendants, the Government moved for, and obtained summary judgment "on the fundamental question involved" (SR. 144, 102-3). The District Court properly fashioned its decree to be as effective and fair as possible in preventing continued or future violations of the Sherman Act within the undisputed facts of this particular case.

In *Associated Press* v. *United States*, 326 U. S. 1, 22; another case in which the Government sought to broaden a decree entered upon its motion for summary judgment, this Court said:

> "The fashioning of a decree in an Anti-trust case in such way as to prevent future violations and eradicate existing evils, is a matter which rests largely in the discretion of the Court. *United States* v. *Crescent Amusement Co., supra.* A full exploration of facts is usually necessary in order properly to draw such a decree. In this case the government chose to present its case on the narrow issues which were within the realm of undisputed facts. In the situation thus narrowly presented we are unable to say that the Court's decree should have gone further than it did."

The District Court also followed the precept contained in the decision of this Court in *United States* v. *National Lead Co.*, 332 U. S. 319, 335:

> "The essential consideration is that the remedy shall be as effective and fair as possible in preventing continued or future violations of the Anti-Trust Act in the light of the facts of the particular case."

There is nothing in the record of this case to cause doubt that Celotex, and the other appellees, will conform meticulously to the requirements of the decree entered by the District Court, and observe, as well, the other prohibitions of the Sherman Act. The District Court has retained jurisdiction of this cause to enable the parties hereto to apply to it at any time for such orders, modifications or directions as may be necessary or appropriate for enforcing compliance with the decree (SR. 190).

Should Celotex, or any of the other appellees, attempt "concerted adoption and enforcement of a host of rules designed to restrain price competition and stabilize prices",* as the Government fears, it will then be appropriate for the Government to request the District Court for a proper modification of the decree. (*United States* v. *Bausch & Lomb Optical Co.*, 321 U. S. 707, 729 [1944]). In *Associated Press* v. *United States*, 326 U. S. 1, 22-3, this Court said:

> "Furthermore, the District Court retained the cause for such further proceedings as might become necessary. If, as the government apprehends, the decree in its present form should not prove adequate to prevent further discriminatory trade restraints against non-member newspapers, the Court's retention of the cause will enable it to take the necessary measures to cause the decree to be fully and faithfully carried out."

CONCLUSION.

The decree of the District Court is fully adequate to eradicate completely the combination which has been found to exist, and all of its effects. There is no need, or justification, for going further and imposing upon this licensee more onerous and restrictive injunctions, since to do so would only hamper, rather than encourage, effective competition in the gypsum board industry. The decree of the District Court should not be changed.

Respectfully submitted,

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* Government Brief, p. 28.